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RUEHKO/AMEMBASSY TOKYO 8058
RUEHGZ/AMCONSUL GUANGZHOU 9571
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RUEHGH/AMCONSUL SHANGHAI 0392
RUEHGV/USMISSION GENEVA 1771
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S E C R E T SECTION 01 OF 04 TAIPEI 003288

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E.O. 12958: DECL: 09/22/2021
TAGS: ETRD ECON PREL PGOV TW
SUBJECT: TAIWAN SENIOR OFFICIALS DISCUSS TRADE ISSUES

REF: A. TAIPEI 2923

¶B. TAIPEI 1831
¶C. TAIPEI 900

Classified By: AIT DIRECTOR STEPHEN YOUNG FOR REASONS 1.5 (b), (d)

¶1. Summary: (S/NF) AIT Director Young discussed current political and economic situations with Vice Premier TSAI Ing-wen and Minister of Economic Affairs Steve CHEN (Ruey-long). Tsai seemed mot to be preoccupied with the continuing drive to bring down President Chen, emphasizing that the government is going to continue to go about its business. She highlighted a series of economic initiatives underway that focus on reform of the financial system, pumping up confidence in the domestic economy, and quietly pursuing incremental liberalization of cross-Straight relations. Tsai reiterated her view that Taiwan could be patient on securing an FTA, almost echoing DUSTR's building-block approach, while Minister Chen was uncharacteristically aggressive in underscoring the importance to Taiwan of an FTA. On the defense budget Tsai, one of Taiwan's leading legal figures, was dismissive of the KMT claim that PAC-III cannot be considered until next spring due to the March 2004 failed referendum. Both Tsai and Chen pledged full cooperation on export controls, with Tsai emphasizing the need for better enforcement and relevant training. End Summary.

¶2. (U) On September 21, AIT Director Young met with Vice Premier TSAI Ing-wen to discuss political and economic developments. The Director was accompanied by Deputy Director Wang and Econ Chief as note taker Tsai was accompanied by her chief of Staff, Chang Hsiao-hui. The Director also discussed economic and trade issues over lunch with Minister of Economic Affairs Steve CHEN (Ruey-long) September 19. Chen was accompanied by Thomas TUNG Pen-chung, who just recently returned from being Taiwan's economic chief in New Zealand. The Director was accompanied by Deputy Director Wang and AIT/T Economic Chief.

Politics and Good Governance

¶13. (C) Commenting on the ongoing demonstrations calling for President Chen Shui-bian to leave office, the Vice Premier said the Taiwan authorities will continue to function despite the demonstrations and political turmoil. As evidence of President Chen's and Premier Su Tseng-chang's resolve to continue directing a functioning government, Tsai noted the government's presentation of a long-term economic development plan on September 20. She said the first part of the program is the social welfare package designed to shrink income disparity in Taiwan and emphasized it is just the first of five packages of the overall program to be presented in the Legislative Yuan. She said a package will be presented next week on restructuring Taiwan's financial sector and later on there will be a package on industrial restructuring.

According to press reports of September 21, the overall program is being called "Project Warmth" and will also include packages on human resource development and public construction projects (which we take to be infrastructure development). Tsai assured the Director Taiwan's business community will support the packages, particularly the industrial one, and hinted that it will also address gradual liberalization of cross-Straight economic policies.

¶14. (C) While Tsai declined to speculate on the possibility of President Chen stepping down, she challenged opposition assertions that his leaving office would defuse political tensions in Taiwan. On the contrary, she said tensions would rise and there would be greater uncertainty in the political arena. Tsai observed that KMT Chairman Ma is "not yet strong enough to make decisions and lead the KMT." She emphasized

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the "yet" in her assessment of Ma even as she went on to describe Wang Jin-Pyng "as a first class negotiator." Tsai concluded her remarks by saying even if Cen were to step down, Taiwan would continue to have an effective government no matter who is in political office because it has a strong, stable and qualified civil service that will implement policies.

Export Controls

¶15. (S/NF) The Director raised export controls with both Tsai and Minister Chen, noting how important it is that Taiwan vigorously punish any violation of its laws in an effort to reduce the number of cases where Taiwan firms ship sophisticated equipment that can be used in programs to produce weapons of mass destruction. Tsai assured the Director that Taiwan has no difficulty with the policy, but noted that implementation requires good, regular contact between Taiwan and U.S. officials. Minister Chen echoed Tsai's support. The Director said the U.S. is sending out an

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inter-agency team November 13-17 to address training and cooperation issues and looks forward to working closely with the interagency team from Taiwan.

Military budget

¶16. (C) The Director advised Tsai that he had met with Premier Su Tseng-chang and Minister of Defense Lee Jye to discuss Taiwan's defense spending, noting he had emphasized the importance of Taiwan sticking to its target of spending 2.85 percent of GDP on its defense needs in this 2007 budget. He said he had urged the authorities to reprogram funding should the LY cut individual defense procurement items. He asked Tsai's view, as a lawyer, on the KMT position articulated by LY member Su Chi that Taiwan cannot consider any funding for PAC-III missiles until after March 20 2007, because of the referendum vote on military spending held in

conjunction with the March 20, 2004 presidential election. Tsai flatly said there is no need at all to wait for next

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year to consider PAC-III funding.

Economy

¶7. (C) Taiwan's Vice Premier has traditionally been in charge of overseeing economic policy programs and Tsai is particularly well qualified to do so. She said Taiwan's economy is in reasonable shape, but identified a lack of confidence and growing income disparity as the two most serious issues. Expanding on the second point, she said fully 30 percent of Taiwan's population has become poorer over the past several years, and defined the declining prosperity of this group as earning a smaller and smaller share of Taiwan's GDP. She said the lack of confidence is reflected in slow growth in domestic consumption. Project Warmth, as described in paragraph 3 above is designed to address these problems and, according to press reports, raise Taiwan's per capita GDP to US\$ 30,000 by the year 2015.

Cross-Straits

¶8. (C) The discussion on cross-Straits liberalization was short and lacked specifics. Tsai limited herself just to saying that there are opportunities to make progress on cross-Straits economic issues, but that timing remains the most difficult issue. She took exception to opposition claims that nothing will happen in the remainder of President Chen's term, reiterating that progress on cross-Straits issues is not solely in Taiwan's hands, implying the PRC also must step forward and help make things happen.

TIFA & FTA

¶9. (C) The Director reviewed the state of play on the Trade

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and Investment Framework Agreement (TIFA) talks, noting that we were making good progress implementing the outcomes from the May talks chaired by then Deputy and now Minister of Economics Steve Chen and Deputy USTR Karan Bhatia. He observed that senior economic officials in Washington were interested in visiting Taiwan to promote trade and investment relations and that initiating the Consultative Committee on Agriculture (CCA) would be a good opportunity for such a visit. He said the U.S. side is preparing language to respond to Taiwan concerns on the CCA. The Director reported AUSTR Tim Stratford is working to reschedule his visit to Taiwan and could well raise the question of Taiwan acceding to the WTO Government Procurement Agreement (GPA). The Director noted that Minister Steve Chen had suggested the day before that Taiwan might be willing to do things short of acceding to the GPA.

¶10. (C) Tsai did not respond directly on the GPA issue, but rather described a view of U.S.-Taiwan trade relations and Taiwan's goal of a Free Trade Agreement (FTA) with the U.S. that seems remarkably consistent with the building-block description provided by Bhatia during his bilateral meeting with Tsai in May (ref B). She said the U.S. and Taiwan should take a comprehensive look at where there are shortfalls in the trade relationship and draw up an agenda within the TIFA process to fill in those gaps. Tsai's comments differed importantly from Minister Chen's made to the Director over lunch on September 21.

¶11. (U) As expected, Minister Chen said Taiwan's number one economic priority remains launching FTA talks with the U.S. and he specifically said it would be important to do so before the end of the year. As reported in ref A, officials at all levels made a point of emphasizing Taiwan's continued desire to secure an FTA with the U.S. during the U.S. trade delegation's visit to Taipei August 17-21. Chen also raised

FTA with U.S. trade officials during his August visit to Washington.

¶12. (C) Minister Chen's rationale for an FTA has expanded from points he used in August and from our previous meetings with him. Surprisingly enough to us, he included subtle suggestions that Taiwan could be more forthcoming on issues of concern to the U.S. if the U.S. is prepared to start FTA talks before the end of this year. As an example, he said Taiwan would be prepared in the context of an FTA to provide WTO-Plus concessions in areas like copyright protection and other areas of concern to the U.S. Chen also hinted Taiwan could be forthcoming on military procurements in exchange for an FTA, while also noting Taiwan's important role as a supplier of high technology goods to the U.S. through global supply chains. When the Director emphasized the need for Taiwan to demonstrate to Washington Agencies its resolve to defend itself, Chen quickly disavowed any desire on Taiwan's part to link an FTA with military sales. Nevertheless, in concluding the lunch, Chen uncharacteristically sounded a fairly tough note as he commented that waiting too long for a Taiwan-U.S. FTA could be bad for bilateral relations.

¶13. (C) Comment: The Vice Premier and Minister Chen were clearly not using the same set of points in promoting an FTA. Tsai sounded the same theme she did in May, noting that Taiwan "can be patient" while Chen was more aggressive than he has been in the past. Interestingly enough, Chen's points echoed Econ Chief's discussion with TECRO/Taipei Deputy Director General Terry Ting on August 17 (Ref A, para. 5). Ting's presentation was not nearly as nuanced or subtle as Chen's. Ting flatly asserted Taiwan could be more forthcoming on arms sales if the U.S. were to launch FTA talks. We remain convinced Taiwan wants to launch talks with the U.S. on an FTA, and will continue lobbying on this issue, but it is not at all clear where this issue falls in the list of priorities for Taiwan. End Comment.

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¶14. (C) Given the distance between Tsai and Minister Chen regarding FTA, the Director suggested to Tsai that Taiwan could lose support in Washington if it pushes too hard on the FTA issue right now. Tsai took the point on board, instructing her Chief of Staff to make a special note of the issue. She said that of course Taiwan is having some discussions on FTA with various constituencies in Washington on the benefits of an FTA, but emphasized that the focus of Taiwan's trade and investment agenda is reserved for discussions between Taiwan and U.S. officials.

GPA

¶15. (C) Though Tsai did not comment directly on GPA, the Director raised it with Minister Chen. Chen immediately replied that it is a purely political issue. He even referred to the August editorial where AmCham/Taipei complained that Taiwan's cross-Straits economic policy is held hostage by the pro-independence Taiwan Solidarity Union (TSU), which opposes any liberalization of economic ties with China. When pushed by the Director, Chen suggested he could try to find ways to accommodate U.S. interests in government procurement by discussing how state-owned enterprises under the control of his ministry could modify their procurement practices to address U.S. concerns. Chen carefully noted that the Public Construction Commission might have different views on the issue and that he could only speak for the SOEs under his control. MOEA is in charge of SOEs such as TaiPower, China Steel, Taiwan Sugar Corporation and others. It controls most, but not all, of the SOEs still operating in Taiwan.

YOUNG